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MEMORANDUM FOR: The Record

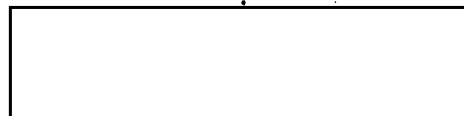
The attached material was used for the briefing on Iran given by [redacted] to John Labor, Under Secretary of Commerce, and members of the Economic and Financial Affairs Committee of the Joint Commission to Iran.

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22 January 1975  
(DATE)

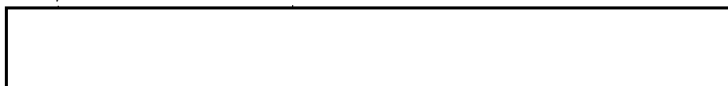
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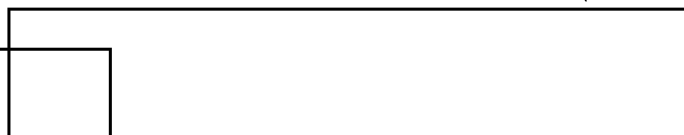


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THE IRANIAN ECONOMY -- AN OVERVIEW OF PAST DEVELOPMENTS  
AND LOOK AT FUTURE TRENDS

A WORD ABOUT THE SHAH -- Without him, oil alone could not have done the job

- \* At 55, he is at apex of 33 year career as monarch; fully in command at home and important force abroad.
- \* Takes "King Business" seriously; works seven days at it; sharp mind and grasp of details; elicits advice; BUT he alone makes big decisions
- \* Confident of future for Iran
- \* Strong alignment with US and West, yet suspicious of foreign intentions -- throwback to earlier economic and military domination.

THE ECONOMY -- PAST TRENDS

- \* Off to a shaky start in the 1950's -- nationalization of oil, overthrow of monarchy, political dissention at home and foreign threats -- troublesome period of early 1960's -- rampant inflation, subsequent enforced retrenchment by IMF, and economic slowdown. Enter the Shah's program for development.
- \* Early strategy for development of industry based on foreign assistance -- technology and credits.
- \* Shift from essentially backward agricultural base. Today, agriculture accounts for about 10% GNP compared to 33% in 1960; industry up from 11% to 18%; oil has grown from 10% to about 50%.

- \* GNP growth about 11% yr 1965-72 but has spurted since and in 1974 was about 40%. Oil a big factor but other industries as well
- \* Natural gas is expanding; petrochemicals growing; and other manufacturing and exploitive industries moving ahead.
- \* Domestic manufacturing, favored by protective tariffs and captive market, now blossoming into fully integrated output. Potential for industry with foreign assistance. A word about automotive and Mack plant.

#### FUTURE ECONOMIC TRENDS

- \* Growth at 16% yearly seems reasonable for remaining three years of current Five Year Plan ending March 1978. No financial limitations on Iran -- oil revenues more than sufficient to cover total spending of about \$67 billion during 1974-78.
- \* Demand for imports (about 26% yearly incl. inflation) rise from about \$9.4 billion in 1974 to \$20 billion by 1978.
- \* Development favors petrochemicals, energy (oil and nuclear), steel, communications, and broad spectrum of military spending.
- \* Iran is getting most of its new industry from the West, spurring efforts with credits on occasion (UK, France, Italy). On occasion buying into Western companies to get technology (Krupp of West Germany and share in France's Eurodif for enriched uranium)

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- \* Other -- Iran interest in sure line of industrial raw materials. Currently, the need is most pressing and covers wide variety of materials from cement to aluminum. Surety of supply is foremost to Iranians and efforts made to tie-in credits with deliveries -- eg. \$1 billion advance to UK and substantial credits to India for joint ventures calling for supply to Iran.

GROWTH INHIBITANTS \_\_ Not all can be solved by money nor in a short time

- \* Recent sharp growth not likely to continue as bottlenecks have developed:

The Labor Force Situation -- Shortage of 700,000 technically skilled plus need for managers. Some 2 million more jobs created by industry in next few years -- women workers will help but shortages will admittedly call for imports.

Pressure to recruit from the farms -- reversal of plans -- for factories; some word on the problems of the mass immigration to cities; wages; and unions.

The backup at ports and inadequate internal transport system

The Inflationary Problem  
The Financial Markets  
The Internal Planning Structure

\* Future Markets

Will the area support the petrochemicals buildup;  
the surplus of steel (output 11-15 million tons;  
demand 7-8 million tons 1980)



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Oil and Natural Gas

Natural Gas

Reserves 300 trillion cubic feet

Production 620 billion cubic feet (1952); 80% flared  
1,900 billion cubic feet 1973

Exports - 1974 350 billion cubic feet USSR \$95 million  
Old price 27¢ \$200 million new price 57¢

Future Revenues	565 billion cubic feet USSR	\$ 847 millic
	1,400 billion cubic feet pipeline to Europe	<u>2,100</u>
		\$2,947

Oil Production (started 1913) Industry nationalized 1951

	<u>Thousand b/d</u>	<u>% World</u>	<u>% M.E.</u>	<u>Revenues Million \$</u>
1960	1,054	4.8	20	285
1965	1,866	6.0	23	522
1970	3,829	7.0	28	1,136
1973	5,861	10.5	28	4,500
1974	6,000	10.9	27	20,600

Growth output 1965-70 (15%/yr) 1970-74 (12%/yr)

Growth revenues 1965-70 (17%/yr) 1970-74 (75%/yr)

Reserves estimated 70 billion barrels 33 years

Productive capacity: 6,500 thousand b/d

Oil exports to US (1973) 420 thousand b/d

Share of US Oil Imports 5.9% (September 1973) 11.2% (September 1974)